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IN THIS ISSUE:

Japan's Trade Engine Downshifts To Low Gear 1

Fiscal Austerity Or Stimulus -- Why Not Both? .. 3

Japanese Monetary Policy 6

Bloated Districts Require Special Diet 6

Doleful Message Delivered To Tokyo 7

Notes 8

Statistical Supplement 11

Japan's Trade Engine Downshifts To Low Gear

Japan's exports and imports show signs of cooling off after outpacing all growth forecasts for the past two years. According to Ministry of Finance statistics, the total value of exports and imports during the first half of 1985 declined from the levels recorded for the same period last year. At the same time, Japan's trade surplus increased because imports fell more rapidly than exports. These developments present two problems for Japanese policymakers: how to compensate for the reduced economic stimulus of the foreign sector; and how to calm trading partners disturbed by widening bilateral imbalances.

Compared with the first half of 1984, the total value of Japanese exports from January to June 1985 declined $237 million (0.3 percent), while imports contracted nearly $4.4 billion, a 6.4 percent reduction (see Table 1). A breakdown by geographic area shows that, except for a 6.4 percent hike in

exports to North America and a 6 percent rise in African imports, exports and imports declined across the board. A finer analysis reveals that exports to the United States and China continue to move up strongly, while trade with others, particularly the developing countries, is off significantly from the year earlier.

Table 1: Japan's Trade by Area and Group

(in millions of dollars)

	Exports		Imports	
	January-June 1984*	January-June 1985*	January-June 1984*	January-June 1985*
Total	$82,501	$82,264	$68,998	$64,606
By Area				
Asia	28,235	27,714	36,085	33,402
Europe	13,652	12,913	7,565	6,611
North America	33,012	35,132	17,331	16,912
South America	1,156	1,001	2,199	1,809
Africa	3,076	2,357	1,557	1,651
Oceania	3,371	3,147	4,259	4,220
By Group				
Developed Countries	46,198	46,807	27,236	26,478
United States	27,949	30,187	13,435	13,414
European Community	9,688	9,012	4,600	4,168
Developing Countries	31,672	27,659	37,695	34,049
Latin America	4,088	3,931	3,686	2,953
Southeast Asia	18,227	16,311	16,118	14,873
Middle East	7,685	5,856	17,056	15,496
Africa	1,419	1,314	512	502
Communist Bloc	4,632	7,798	4,065	4,080
China	2,886	6,540	2,953	3,161
Soviet Union	1,302	1,400	734	632

*Columns may not add up due to rounding.

Source: Ministry of Finance

A product analysis of Japan's exports and imports includes bright and dark spots (see Table 2). While exports of nonelectric machinery, manufactured goods classified by material, and chemicals declined, this was balanced by increased sales of transportation equipment, electric machinery and miscellaneous manufactured goods like precision equipment. Solid export performances were recorded in the following product lines: steel, 3.5 percent higher; office equipment (which includes computers), up 4.5 percent; cars, a 5.3 percent gain; machine tools, up 10.3 percent; and television and radio

Table 2: Japan's Trade by Product

(in millions of dollars)

	Exports		Imports	
	January-June 1984*	January-June 1985*	January-June 1984*	January-June 1985*
Food and Live Animals	$592	$554	$7,450	$6,682
Beverages and Tobacco	75	59	499	461
Crude Materials, Inedible (except fuels)	621	600	9,929	9,127
Mineral Fuels	258	247	30,859	28,183
Coal	102	92	2,706	2,635
Petroleum and Petroleum Products	155	151	23,469	20,618
Natural and Manufactured Gas	0	4	4,684	4,929
Animal and Vegetable Oils and Fats	51	33	179	164
Chemicals	3,856	3,728	4,101	4,088
Medical and Pharmaceutical Products	181	179	607	632
Manufactured Goods Classified Mainly by Material	14,602	13,939	6,240	5,599
Leather and Leather Products	167	140	61	69
Rubber Products	989	889	87	78
Wood and Cork Products	49	42	415	415
Paper and Paper Products	479	493	276	265
Yarns, Fabrics and Made-up Goods	2,697	2,300	973	1,008
Stone, Glass and Cement	1,104	1,028	614	615
Steel Products	6,496	6,721	1,023	681
Nonferrous Metals	735	686	2,544	2,213
Metal Manufactures	1,886	1,640	245	255
Machinery and Transport Equipment	50,084	50,570	5,171	5,632
Nonelectric Machinery	13,576	13,461	2,120	2,308
Office Machines	3,452	3,609	597	765
Machine Tools	962	1,061	88	110
Electrical Machinery and Electronics	13,648	13,937	1,931	1,889
Television and Radio Equipment	5,057	5,588	228	212
Transportation Equipment	22,860	23,173	1,120	1,436
Cars	10,933	11,513	260	265
Miscellaneous Manufactures	11,537	11,694	2,814	2,894
Unclassified Commodities	845	838	1,756	1,777
Total	$82,501	$82,264	$68,998	$64,606

*Columns may not add up due to rounding.

Source: Ministry of Finance

equipment, a rise of 10.5 percent. On the import side, manufactured goods increased their share of total deliveries from 26.6 percent in 1984's first half to 28.2 percent this year. Purchases of machine tools, office machines and transportation equipment heated up, each posting 25 percent or better growth over last year. Reflecting global price declines, cheaper crude oil cut Japan's import bill by $5.7 billion through the first half of 1985.

The impact of this trade slowdown is becoming clear as most of Japan's leading economic indicators send mixed or negative signals. Cutbacks in investment plans by export-oriented corporations have been announced -- the first aftershocks of slumping trade growth. While many private economists have scaled back their forecasts for fiscal 1985 economic growth, the government is still clinging to its original projections, hoping that business investment will not weaken too much and that consumer spending will pick up as the holiday season nears. While consumer spending, which accounts for half of total demand, seems perkier than last year, most analysts agree that it will not make up for all of the decline in foreign demand. Even if this proves true, the Japanese economy is still likely to out-perform its U.S. rival. Nevertheless, Japanese policymakers are locked in heated debate over solutions to this "problem."

Jon Choy

Fiscal Austerity Or Stimulus -- Why Not Both?

As economic growth eases and trade frictions multiply, there is continuing debate over the direction of Japan's fiscal policy. Although Prime Minister Yasuhiro Nakasone continues to advocate tight limits on spending and a gradual approach to new taxes, there are recent signs of a policy relaxation.

After bustling along for nearly two years, the Japanese economy is finally beginning to run out of steam, primarily because of weakening demand abroad (see article in this issue). As first output and then investment of export-oriented industries slowed, consumer and government spending failed to take up the slack. The resulting lag in economic activity has increased pressures for an easier fiscal policy.

Domestic aluminum makers are the latest to add their voices to the fiscal stimulus chorus. In order to revive the slumping industry, manufacturers petitioned the Ministry of International Trade and Industry (MITI) for a more stimulative policy August 23.

The failure of Mr. Nakasone's action program of market and financial liberalizations to dispel the tensions in trade relations only adds to the momentum of fiscal stimulus advocates. Practically all foreign observers assert that stimulating domestic demand would ease trade frictions without reigniting inflation in Japan. Although most Japanese policymakers, Mr. Nakasone among them, agree that domestic demand must be the main pillar of sustained economic growth, they have shied away from a loose fiscal policy, citing Japan's large outstanding national debt. Nevertheless, the same week even Foreign Minister Shintaro Abe announced his support for some immediate outlays to calm foreign trading partners.

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1983	1984	January-June 1984	January-June 1985	April 1985	May 1985	June 1985
Japan's Balance of Payments							
Trade Balance	$31,454	$44,257	$19,385	$23,076*	$4,136*	$4,288*	$5,715*
Exports (f.o.b.)	145,468	168,290	81,614	81,394*	14,719*	14,234*	14,277*
Imports (f.o.b.)	114,014	124,033	62,229	58,318*	10,583*	9,946*	8,562*
Current Account Balance	20,799	35,003	14,788	20,072*	4,127*	3,577*	5,550*
Long-Term Capital (net)	-17,700	-49,651	-20,123	-28,743*	-5,554*	-4,678*	-8,156*
Overall Balance	5,177	-15,200	-8,332	-4,334	-1,122	1,012	-1,810
International Reserves (end of period)	24,496	26,313	25,208	27,569	26,841	27,328	27,569
Japan's Customs Clearance Trade							
Trade Balance	20,534	33,611	13,503	17,658	3,260	3,367	5,016
Exports (f.o.b.)	146,928	170,114	82,501	82,264	14,875	14,432	14,447
Cars	19,535	21,899	10,933	11,513	2,570	2,231	2,153
Steel	12,843	13,852	6,496	6,721	1,119	1,209	1,124
Imports (c.i.f.)	126,393	136,503	68,998	64,607	11,615	11,065	9,431
Crude Oil	40,063	39,379	23,469	17,766	3,067	2,871	2,107
Japan-U.S. Trade							
Trade Balance	18,181	33,075	14,515	16,772	3,460	3,412	3,326
Exports (f.o.b.)	42,829	59,937	27,949	30,187	5,785	5,700	5,354
Imports (c.i.f.)	24,648	26,862	13,434	13,415	2,325	2,288	2,028
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	Y232.20	Y251.10	---	---	Y252.25	Y251.85	Y248.95
U.S.-Japan Trade							
Trade Balance	-19,289	-33,560	-15,453	-22,418	-4,198	-3,904	-4,073
Exports (f.a.s.)	21,894	23,575	11,585	11,550	1,733	1,815	1,751
Industrial Supplies	8,734	9,139	4,478	4,450	704	644	667
Food and Feed	5,555	5,929	2,982	2,307	370	384	339
Capital Goods	5,116	5,627	2,774	3,223	451	532	503
Consumer Goods	1,394	1,476	722	738	111	133	126
Imports (Customs)	41,183	57,135	27,038	33,968	5,931	5,719	5,824
Automotive Products	14,919	18,477	9,019	11,744	1,945	2,139	2,279
Industrial Supplies	5,391	7,276	3,532	3,752	611	623	652
Consumer Goods	8,296	11,266	5,185	6,909	1,291	1,111	1,058
Capital Goods	11,896	19,290	8,900	10,968	1,964	1,741	1,734

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1983	1984	January-May 1984	January-May 1985	March 1985	April 1985	May 1985
Discount Rate (end of period)	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Outstanding Money Supply	7.4%	7.8%	7.8%	8.1%	7.9%	8.4%	8.3%
Industrial Production	3.6%	11.1%	11.4%	6.7%	5.2%	7.1%	7.5%
Manufacturing Operating Rate	1.6%	7.3%	9.0%	2.2%	1.6%	3.4%	1.9%
Number of Bankruptcies	11.9%	8.8%	19.8%	-9.5%	-12.8%	-8.4%	-10.8%
Residential Construction Starts	-0.8%	4.4%	5.3%	5.8%	8.1%	3.2%	3.3%
Job Openings to Applications (ratio)	0.60	0.65	0.64	0.68	0.68	0.68	0.69
Nominal Wages	3.5%	4.5%	4.4%	3.7%	2.4%	3.8%	4.3%
Labor Productivity	4.5%	9.9%	10.0%**	6.8%**	6.5%	n.a.	n.a.
Wholesale Prices	-2.2%	-0.3%	-0.9%	0.6%	0.9%	0.6%	0.1%
Consumer Prices	1.9%	2.2%	2.3%	1.9%	1.6%	1.9%	1.6%
Yen-Based Export Prices	-6.0%	0.6%	-1.1%	4.1%	5.6%	4.3%	2.6%
Yen-Based Import Prices	-7.8%	-3.4%	-5.5%	2.8%	4.3%	3.3%	2.1%

**Through March of each year only.

For Japan's most recent GNP figures, see JEI Report No. 24B, June 28, 1985.

STATISTICAL SUPPLEMENT